Market Report

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Bonas
Diamond Brokers & Consultants

Rough

Rough, regardless of its origin, continues to be expensive in relation to polished, despite premiums cooling off somewhat in the last week.

Two weeks ahead of the DTC sight, BHP's goods sold at another 8% higher in their spot sale. Customers found the goods weaker and the total volume sold (including term market goods) was high at between $120-130m. BHP goods may have reached their peak price now because in the secondary market the goods were unpopular, yielding at best no premium.

Russian goods are also expensive and the volume sold in October was $350m, of which $250m to the market. In the first nine months, Alrosa sold $1.7bn of rough and polished diamonds, half of which was in the third quarter. Even to insiders the marketing of their goods is not always clear. There are still about 15 companies with contracts, but in addition to that there is a whole range of smaller buyers averaging between $1.5 - 3.0m a month. Depending on the goods, they are being traded at -2 / +2%. At the moment Alrosa is flexible in terms of cherry picking, but most think this will not last for very long.

Rio Tinto announced on Tuesday that it will drop some long term customers and change its business model, possibly to include tendering part of their production. This is a result of a decline in their production and changed market conditions. Chaim Even-Zohar's article here.

The situation on the secondary market partly explains the resignation with which clients took the price increase at the DTC. Some goods are expensive, certainly in relation to polished, but everything else is expensive too and there is not much around.

Mumbai is witnessing a shortage across every stage of its value chain - in rough supply at the production level, in skill supply at the factory level and also on the polished side of the business. This has resulted in prices/salaries going up to almost pre-Diwali levels of last year. This uplift is also fuelled by the strong Rupee, which brings down costs by up to 4.5%. DTC boxes are fetching hefty premiums: Blacks are going for 17 - 20%, while H-L Rejections went as high as 20%. Russian goods are catching on with a fresh sale at Diamond India Ltd being quite successful.

Israeli diamantaires are taking a more cautious approach as they do not see justification in the polished for expensive rough. Demand from Israel's largest polished export market, the U.S., is not strong yet price resistant.

Overall, people have the impression that producers are squeezing maximum benefit from the current situation, leaving little room for the manufacturers. People feel that rough pricing at the moment doesn't even begin to follow polished performance, though it does prevent polished prices from going down.

The rough market currently has two sides: one side is speculative and carries high premiums; the other side tries to buy goods for manufacturing and is therefore forced to be much more conservative and resistant to high prices. As a result, some premiums were higher than last month, although we wouldn't want to exaggerate the quantity of boxes actually sold.

The next two months will prove crucial. Solid polished sales are needed to determine whether rough prices can remain at this level or will need to be adjusted.

Polished

Antwerp: While overall sales levels generally remain well below those of last year, over the past few weeks polished activity (mainly in VS down) has slowly been picking up. The increase in demand is mainly coming from wholesalers, though there are indications they reflect last minute orders from their downstream customers. Polished buyers have been tending not to buy for stock, only for confirmed orders. With the Christmas season just around the corner, downstream buyers have little choice but to stock up with product, even if only a strict minimum quantity. Despite this uplift, it is clear that the market still needs more sustained positive signs in the form of steady, regular sales before we can speak of a real pick up.

Companies desperate to sell polished to raise cash are dropping their prices. Others, mainly in the larger sizes and with a cushion, have decided to hold the goods as they believe they will be able to generate higher prices in 1 to 2 months' time. The latter seem to be a growing number.

Good demand for VS-SI, whiter colour (D-G) goods. VVS quality moves slower. Hottest range is 1-1.99ct D-F, SI. In comparison to 3 months ago, prices are up overall by 2-3%.

Tel-Aviv: The market at the moment is somewhere in between "busy" and "quiet". On one hand there are shortages of certain items causing prices to rise, on the other hand demand is not booming and one must work hard to close the sale. Prices are slightly higher than last month.

The season so far has been reasonable, but a far cry from two years ago. Demand is mainly from HK/China and India. There are orders from America but one must be aggressive in order to sell. The American retail landscape has changed considerably with fewer majors and less doors overall. Sellers are still choosy to whom they sell and even better clients are often late in their payments. Demand from Europe is very slow except from Italy.

There is a lack of 'popular' goods on the market as Israeli companies have sold through some of their stock. Some have tried buying in India but find the prices to be prohibitively expensive.

Princess is moving with shortages felt in certified caraters, especially VS-SI which has caused prices in whatever is available to increase. Under 1ct is more widely available. Some demand for emeralds but square-edge (with the exception of princess) is moving very slowly.

Mumbai: Polished prices are finally showing an upward trend, while rough prices have been strong for the last few months. Demand across all ranges remains similar to that of last month though. There is an average price rise of 4-5% in polished, with stars and melees seeing the largest rise. Goods that were selling at $180 two weeks can easily command a price of $200 today.

With factories not being able to meet polished demand, and inventories at an all time low, a lot of sightholders feel a shortage of rough. Companies were liquidating their dossier stock pre-Diwali, so a slight shortage is also seen in this area.

Demand for 0.18 – 0.22 ct remains similar to last month, prices in pique are up by a further 5-7% from last month. SI+ goods remain sticky.

New York: Goods are slowly working their way through the pipeline with dealers and retailers still ordering in hope that the season turns out respectably, even if it isn't expected to be as strong as was hoped for. Collections from retailers are becoming an increasing concern as money continues to be tight.

Demand for fancies is quite slow. Those with established princess distribution are seeing some activity. Cushions remain an item in demand. However, in all shapes, makes are an issue.

Hong Kong: In Hong Kong and the entire APEC region business sentiments have slowed again after the Hong Watch and Jewellery Fair. Business in Hong Kong remains subdued. There is also more competition with more companies trying to sell to the same customers. Stocks at retail level remain high.

Price resistance for 1+ct DEF colour / VVS clarity continues. Lower colour: IJKL – SI sell well, also without certificate. 1.00-1.15ct is a popular size.

Retail

EUROPE

European diamond retail markets are still suffering from people not buying luxury goods. The entire market remains soft and there is a general feeling that retailers have enough products in stock to last the season.

The jewellery market for plain gold has been heavily affected by the highest ever gold price. Sales are estimated to have dropped by 30 to 40% over the last few months. This has also had a cascading impact on the low end diamond jewellery (€500 below).

There is some movement in the leading European markets but it is not what it should be. Business in Germany is described as stable. Buyers are more cautious and often memo sales are needed to get orders in. Consumers are willing to spend but it takes much longer to make the sale and often they give in on stone size to fit the smaller budget. France is soft and French retailers, for the first time, have started to order 9-carat gold jewellery. Demand from Turkey and Eastern Europe is reported to be slow with unfavorable exchange rates not helping the situation.

USA

Retailers in America have announced mixed results over the last month or so.

Bidz.com: income down 55% to $24.8 million.

Macy's October income fell 1.3% to $1.7 billion, while same-store sales fell 0.8%.

J.C. Penney saw same store sales fall 4.5% during October. Total sales were down 3.5% to $1.3 billion. Q3 sales fell 3.2% to $4.2 billion, with same store sales also dropping 3.2.

Kohl's sales were up 4.9% to $1.3 billion during October, with same-store sales up 1.4%. Q3 sales were 6.5% up to $4.1 billion.

Saks' October sales were up by 1.8% to $219.8 million, with same store sales up 0.7%. Q3 sales fell 8.9% to $622.7 million, with same store sales down 10.1%.

Nordstrom: 6.5% increase in same store sales for October. Q3 sales increased 3.5% to $1.87 billion, but its same store sales decreased 1.2%.

Neiman Marcus' October sales fell 4.2% to $274 million with same store sales dropping by 6% to $269 million.

Zale Corporation revenues fell 16.8% to $1.78 billion. Same stores sales for the 2009 financial year fell 17%. Sales fell 21.7% to $357.1 million during Q3.

Blue Niles' Q3 sales rose 2.4%. International sales grew 27.5%, whilst US sales fell 0.7%

HONG KONG AND CHINA

Overall retail sales in the Golden week were up 18% compared to last year. For diamonds and jewellery, retailers report similar figures to last year, with some better performing at +10-15%. Over the entire year, retailers in China are pleased and saw their business grow, mainly thanks to retail expansion. At the same time they issue a word of caution as they don't believe that 15-20% growth will be sustainable into 2010.

Retailers are also facing more competition from the internet which is growing fast and getting more organized with venture capitalists entering that business.

INDIA

The feel good factor has come back to India with both the Rupee and the stock market strengthening. The high price of gold did not deter Indian consumers from purchasing. There was a 39.2% increase in value on a year-on-year basis according to figures released by the World Gold Council, which equates to approximately $1.8 bn in value or 56 tonnes in weight.

Diamond retailers across the country are also reporting healthy sales, with several new stores having opened in the North in time for the season.